Cabletel *Communications Corp.*

Annual Report [1996]

Cabletel Communications is growing rapidly as Canada's leading distributor of broadband communications equipment for the cable television and communications industries. Through acquisitions, strategic alliances and other arrangements Cabletel regularly adds highest quality product lines. The Company now supplies over 10,000 products used to build, maintain and upgrade cable television and telecommunications systems. Cabletel shares are listed and trade on both the Toronto and American Stock Exchanges. Symbol: TTV

Canadian Dollars in thousands, except per share amounts *Years ended Dec. 31*		**1996**	1995	1994	1993	1992
Operations						
Net Sales	**$**	**58,725**	44,016	48,302	34,056	24,952
Net Income (Loss)		**989**	622	1,485	328	(348)
Financial Position						
Total Assets		**36,125**	15,871	17,048	11,733	9,390
Net Income (Loss) per Share	**$**	**0.19**	0.14	0.37	0.11	(.12)

To Our Shareholders

1996 proved an outstanding year. Significantly higher revenues and profits and an acquisition which resulted in a major broadening of the product range highlight a new wave of growth. This growth was strongly supported by a resumption of high levels of capital spending by the Canadian cable television industry.

The trend continues into 1997 as cable television companies upgrade their networks to take advantage of technological advancements, improving quality and dramatically increasing the range of services to be offered to subscribers.

Financial

A 59% jump in net income from a 33% rise in revenues demonstrates benefits from administrative and operating efficiencies.

Consolidated net income of $988,743 was the second highest achieved by the Company and compares with $622,076 in 1995. Consolidated net revenues at $58,725,037 were up from $44,016,193. Net income per share at $0.19 is based on a weighted average of 5,249,204 shares. This is a 36% gain from $0.14 in the previous year based on 4,575,000 shares outstanding.

Acquisition

As reported previously a key facet of the Company's strategy is to seek to accelerate growth through strategic acquisitions. In September 1996 the Canadian broadband/cable distribution business of ANTEC Corporation was acquired. This had the immediate effect of adding a large number of products available from our portfolio. Major lines added include Alpha Technologies Ltd., Gilbert Engineering Co. Inc., Newbridge Networks Corp. and Argus Technologies Ltd.

For 1996, only the fourth quarter results benefited from this acquisition. The portion of the ANTEC Canadian distribution business which was acquired has had an annual volume of about $25 million. This would represent a 50% increase in annual Cabletel sales.

This acquisition has the additional long-term significance of establishing a close relationship with ANTEC Corporation, an innovative international technology company.

ANTEC specializes in the design and engineering of hybrid fiber/coax (HFC) broadband networks and the engineering, manufacturing, product development and distribution of products for these advanced networks. ANTEC continues to be active in Canada, directly marketing its own manufactured products.

U.S.-based ANTEC has become a significant shareholder in Cabletel holding 1,450,000 shares, a 22% interest. ARC International Corp. remains the largest shareholder with a 51% interest.

As provided in the agreement with ANTEC, that company now has two representatives on the Board of Directors — Lawrence A. Margolis and James L. Faust. Mr. Margolis is ANTEC's Executive Vice-President and Chief Financial Officer. Mr. Faust is Executive Vice-President, International of ANTEC Corporation. Their expertise will be most beneficial to your Company.

Over time, additional opportunities for Cabletel should develop through the Cabletel/ANTEC alliance.

The Board of Directors has been further strengthened with the addition of U.S. merchant banker Marshall S. Geller, Chairman, Chief Executive Officer and Founding Partner of Geller & Friend Capital Partners, Inc. which serves middle market growth companies.

Outlook

As a result of a series of mergers and acquisitions, Canada's cable television industry now consists of fewer but larger and financially-stronger companies. These companies are making large capital investments, adding new services such as specialty channels, pay-per-view, Internet access and non-video data transmission.

In the telecommunications industry, a similar upgrading of telephone systems is underway to put in place the ability to add a much enhanced range of services.

The regulatory authorities governing these two industries have already started the process of adapting their framework of rules to recognize the convergence of communications services.

Over more than 20 years, Cabletel has been an integral part of and grown with the Canadian cable television industry. Sales to telecommunications companies, while building in recent years, currently account for only a modest 5% of total revenues. The convergence trend holds out an opportunity to increase your Company's penetration of that industry while maintaining its dominant position in cable television.

Cabletel is also in an advantageous position to benefit from commercial development of new "wireless" communications technologies — such as DBS (Direct Broadcast Satellite), MMDS (Multi Channel Multi Point) and LMCS (Local Multipoint Communications).

Cabletel now can supply some 10,000 products, double the range available in our distribution centres a few years ago. As convergence creates and spreads the new "wired world" and "wireless" technologies are introduced into the marketplace, the need will increase for equipment already available from Cabletel and for new product lines which are constantly being added.

One of the 1996 highlights in the product range was the addition in May of a specialized line of products which connect, protect and seal cable television networks. Developed by Raychem Corporation, this is another of the many outstanding products made by leading manufacturers where Cabletel is the exclusive Canadian distributor.

Cabletel is prepared for new opportunities. Operations and facilities have been rationalized to achieve maximum efficiency and to improve service to customers. The Vancouver distribution centre has been expanded and a new warehouse has been added in the greater Toronto area. Technical staff is being increased assuring that the Company can provide the best support possible for the equipment being distributed.

Your Company has the products and the trained people to continue growing by meeting the needs of the industry in this new climate of opportunity being created by cable television, telecomnunications and new communications technologies.

The achievements of 1996 reflect the efforts and support of many people, our associates in Cabletel and Stirling, suppliers, customers and shareholders.

On Behalf of the Board

Sheldon M. Rittenberg
President, Chief Executive Officer
March 31, 1997

Arnold S. Tenney
Chairman

Year Ended December 31, 1996

Liquidity and Capital Resources

During the year ended December 31, 1996, bank indebtedness increased $5,017,005 to $8,326,011. Net assets acquired from ANTEC amounted to $4,776,229 and goodwill of $8,450,389 was also acquired. Share offering of $8,969,526 offset the cash requirement for the acquisition. The company increased capital assets by $450,872 and reduced long-term debt by $572,417.

Cash provided by operations was $327,376 with increased inventory and reduced accounts payable which together used $2,935,465 was offset by earnings including amortization of $1,689,929 and reduction of accounts receivable of $1,112,476. The changes in assets and liabilities do not include charges from the purchase of ANTEC as they are included in the net assets acquired.

The higher levels of inventory reflected efforts by the Company to maintain customer service during the early period following the acquisition of ANTEC. Reduced accounts receivable and accounts payable were reflective of reductions in the combined business due to excluded product lines.

Long-term indebtedness including the current portion thereof decreased by $572,417 to nil during the year ended December 31, 1996 as the mortgage payable was repaid. Due to related parties including current portion declined by $64,000 to $1,271,167. This amount was incurred to assist the Company in paying management fees to ARC. The amounts outstanding are non interest bearing notes due to ANTEC Corporation which were incurred to provide part of the financing of the acquisition. The notes, in the amounts of $657,000 and $614,167, are payable August 1997 and August 1998 respectively. The $1,335,167 was repaid to ARC in part for cash ($62,500) with the balance exchanged for 165,153 shares of common stock of the Company.

The Company has no material commitments for capital expenditures. The Company believes its lines of credit are adequate for its current needs. Each of Cabletel and Stirling has operating lines of credit available from a Canadian chartered bank of up to $12 million and $400,000, respectively. Each facility is renewed on an annual basis on April 30 of each year, bears interest at rates ranging from prime plus 0.60% to prime plus 1.00% and is secured by general assignments of book debts and inventory, demand debentures in the amount of $12 million in the aggregate constituting a first fixed and floating charge on certain assets and a second fixed and floating charge on the land and building, and assignments of insurance.

Year Ended December 31, 1995

During the year ended December 31, 1995, bank indebtedness declined $4,707 to $3,309,006; such aggregate indebtedness being comprised solely of overdraft borrowings. Although the levels of accounts payable and accounts receivable were relatively consistent reflecting consistent cash receipts and disbursements, the inventory levels were reduced by $1,310,373 to $6,198,798. Offsetting the reduction in cash requirements generated by inventory reductions were reductions of corporate income tax liabilities amounting to $707,805; repayment of intercompany debt of $625,000 and capital asset additions of $617,119. In addition, the Company generated $964,544 of cash flow from earnings. Bank indebtedness includes two demand operating loans which provide credit facilities in an aggregate amount of up to $6.9 million. The loans are secured by a general assignment of book debts, inventory and demand debentures in the amount of $6.9 million in the aggregate constituting a first fixed and floating charge on certain assets of Cabletel and a second fixed charge on Cabletel's land and building.

Long-term indebtedness including the current portion thereof, decreased by $7,180 to $572,417 during the year ended December 31, 1995. Such debt is comprised of a mortgage payable in monthly installments of approximately $5,900, including principal and interest, with a final payment due April 1, 1996. This mortgage payable is secured by a first charge on Cabletel's land and building. Due to parent company decreased by $625,000 to $1,335,167; this amount was incurred to assist the Company in paying management fees to ARC.

The amounts due to parent reflected in the Company's Consolidated Statement of Changes in Financial Position, which constitute a part of the Company's Consolidated Financial Statements, reflect the net amounts borrowed and repaid from and to ARC throughout each period. The borrowed amounts reflect the management fees loaned back to the Company by ARC.

Years ended December 31, 1996 and December 31, 1995

Results of Operations

Sales of $58,725,037 for the year ended December 31, 1996 reflect an increase of $14,708,844 or 33% as compared to the year ended December 31, 1995. The increase reflects stronger capital spending by Canadian cable operators as they strive to increase cable capacity to accommodate additional channel selections, upgrade existing networks using fiber optic technology, prepare for competition from other broadcast technologies and make capital improvements to existing systems. The ANTEC acquisition which was completed August 29, 1996 contributed to higher activity levels during the fourth quarter.

Gross profit as a percentage of sales for the year ended December 31, 1996 was 16.6% as compared to 17.4% for the year ended December 31, 1995. The decrease in the gross margin is a function of a change in product mix to lower margin products and sales volumes having increased the price competition.

General and administrative expenses increased $1,082,110 for the year ended December 31, 1996 as compared to the year ended December 31, 1995. However, as a percentage of sales, such expenses decreased to 11.5% in the year ended December 31, 1996 from 12.9% in the year ended December 31, 1995. The Company has made a diligent effort to continue to control operating costs in light of increased operating activities. Selling, general and administrative expenses included approximately $200,000 in non recurring expenses related to the integration of the ANTEC operations with those of the existing Cabletel business. The higher costs reflected increased staff necessary to accommodate the broadened product lines as well as the increased physical activity. In addition to staff increases the company expanded its distribution capacity in both British Columbia and Ontario.

Amortization increased $323,718 to $701,186. The increase was attributable to higher goodwill amortization from the ANTEC acquisition ($180,000) with the balance from continued depreciation of expanded computer capacity.

Interest on long-term debt was lower by $163,947 to $63,660. Repayment of the mortgage outstanding and the conversion of the amounts due to ARC into common shares were the causes of the lower loan amount.

The other interest reduced $39,349 to $296,105 was achieved by lower borrowings prior to the ANTEC acquisition and the lower interest rates available during 1996.

Income taxes charged for the year ended December 31, 1996 of $1,047,500 represents a tax rate of 51.4%. The rate of 51.4% reflects the effect of amortization of goodwill being deductible only to 75% of the amount and the effects of lower rates on the deductibility of losses in the manufacturing division.

Years Ended December 31, 1995 and December 31, 1994

Sales of $44,016,193 for the year ended December 31, 1995 reflect a decrease of $4,285,618 or 9.7% as compared to the year ended December 31, 1994. The decrease reflects reduced capital spending by Canadian cable operators as they restructure their organizations and implement new systems following significant consolidation within the Canadian cable television industry.

Gross profit as a percentage of sales for 1995 was 17.4% as compared to 17.1% for 1994. The maintenance of gross margins is indicative of the price stability currently being experienced in the Canadian cable industry. Selling, general and administrative expenses increased approximately $438,611 for 1995 as compared to 1994. Selling, general and administrative expenses were higher due to a combination of certain one time charges and to the provision of additional warehouse capacity late in 1994. The number of employees has been consistent year over year. The amortization amount was significantly higher due to an acceleration of the amortization rate of the Company's goodwill and a larger capital equipment base from additional computer systems added during the year. Interest on long-term debt was higher by $38,086 to $227,607 due to intercompany debt being interest bearing for the entire period. Other interest increased by $156,776 to $335,454 as a result of consistently higher utilization of operating lines during the entire year. The operating line utilization was consistent from the fourth quarter of 1994 through 1995.

Income taxes charged for the year ended December 31, 1995 of $485,000 represents a tax rate of 43.8%. Such rate is the result of offsetting recovery of wholly-owned subsidiary losses with items not deductible for income tax purposes.

Cash flows used for capital investment remain small in relation to the cash flow from operations and reflect the acquisition of equipment including computer hardware and software, machinery and furniture.

To the Shareholders and the Board of Directors of Cabletel Communications Corp.

We have audited the consolidated balance sheets of Cabletel Communications Corp. as at December 31, 1996 and 1995 and the consolidated statements of operations and deficit and changes in financial position for the years ended December 31, 1996, 1995 and 1994. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years ended December 31, 1996, 1995 and 1994 in accordance with accounting principles generally accepted in Canada.

Kraft, Rothman, Berger, Grill, Schwartz & Cohen

Kraft, Rothman, Berger, Grill, Schwartz & Cohen

Chartered Accountants

Toronto, Ontario

January 24, 1997

Canadian Funds
December 31,

	1996	1995
Assets		
Current		
Accounts receivable (net of allowance of $205,669; 1995 – $276,103)	**$ 11,824,007**	$ 7,391,914
Inventory (Note 3)	**13,508,708**	6,198,798
Prepaid expenses and other	**138,508**	91,904
Deferred income taxes	**90,000**	90,000
	25,561,223	13,772,616
Capital (Note 4)	**1,905,824**	1,663,814
Deferred Income Taxes	**388,000**	305,000
Goodwill (net of amortization of $180,000; 1995 – $201,357)	**8,270,389**	129,852
	$ 36,125,436	$ 15,871,282
Liabilities		
Current		
Bank indebtedness (Note 5)	**$ 8,326,011**	$ 3,309,006
Accounts payable	**11,484,996**	6,155,015
Accrued liabilities	**36,525**	41,250
Income taxes	**616,701**	26,660
Long-term debt (Note 6)	**–**	572,417
Due to related parties (Note 7)	**657,000**	186,000
	21,121,233	10,290,348
Due to Related Parties (Note 7)	**614,167**	1,149,167
	21,735,400	11,439,515
Shareholders' Equity		
Capital Stock (Note 8)		
Authorized		
Unlimited First preferred shares, issuable in series		
Unlimited Common shares		
Issued		
6,495,112 Common shares (1995 – 4,575,000)	**14,677,245**	5,707,719
Deficit	**(287,209)**	(1,275,952)
	14,390,036	4,431,767
	$ 36,125,436	$ 15,871,282

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

Sheldon M. Rittenberg, Director **Jeff Chelin, Director**

Canadian Funds

For the Years Ended December 31,	**1996**	1995	1994
Sales	**$ 58,725,037**	$ 44,016,193	$ 48,301,811
Cost of Sales	**48,970,969**	36,379,355	40,031,993
Gross Profit	**9,754,068**	7,636,838	8,269,818
Expenses			
Selling, general and administrative	**6,760,550**	5,678,440	5,150,622
Amortization	**597,510**	288,261	125,266
Interest on long-term debt	**63,660**	227,607	189,521
Interest – other	**296,105**	335,454	178,678
	7,717,825	6,529,762	5,644,087
Earnings Before Income Taxes	**2,036,243**	1,107,076	2,625,731
Income taxes (Note 10)	**1,047,500**	485,000	1,141,000
Net Earnings for the Year	**988,743**	622,076	1,484,731
Retained Earnings (Deficit), beginning of year	**(1,275,952)**	(1,898,028)	1,667,240
	(287,209)	(1,275,952)	3,151,971
Dividends paid	**–**	–	(3,800,000)
Purchase price in excess of Stirling's share capital	**–**	–	(1,249,999)
	–	–	(5,049,999)
Deficit, end of year	**$ (287,209)**	$ (1,275,952)	$ (1,898,028)
Earnings per share (Note 11)	**$ 0.19**	$ 0.14	$ 0.37

See accompanying notes to consolidated financial statements.

Canadian Funds

For the Years Ended December 31,	**1996**	1995	1994
Operating Activities			
Net earnings for the year	**$ 988,743**	$ 622,076	$ 1,484,731
Deferred income taxes (recovered)	**(83,000)**	(35,000)	90,000
Amortization	**701,186**	377,468	172,322
Loss on disposal of capital assets	**–**	–	9,450
Changes in Assets and Liabilities			
Accounts receivable	**1,112,476**	150,624	(2,524,329)
Inventory	**(1,177,094)**	1,310,373	(2,409,272)
Prepaid expenses and other	**(46,605)**	(10,084)	(22,532)
Accounts payable and accrued liabilities	**(1,758,371)**	(453,646)	2,072,638
Income taxes	**590,041**	(707,805)	403,243
	327,376	1,254,006	(723,749)
Financing Activities			
Due to related parties	**(64,000)**	(625,000)	(300,000)
Long-term debt	**(572,417)**	(7,180)	(14,129)
Share offering (net of deferred taxes)	**8,969,526**	–	5,257,718
Dividends paid	**–**	–	(3,800,000)
Stirling acquisition	**–**	–	(1,500,000)
	8,333,109	(632,180)	(356,411)
Investing Activities			
Purchase of capital assets	**(450,872)**	(617,119)	(179,806)
Goodwill acquired	**(8,450,389)**	–	–
Net assets acquired	**(4,776,229)**	–	–
	(13,677,490)	(617,119)	(179,806)
Change in Funds	**(5,017,005)**	4,707	(1,259,966)
Funds, beginning of year	**(3,309,006)**	(3,313,713)	(2,053,747)
Funds, end of year	**$ (8,326,011)**	$ (3,309,006)	$ (3,313,713)

Funds are defined as cash on hand less bank indebtedness.

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which, except as described in Note 14, conform, in all material respects, with the accounting principles generally accepted in the United States.

Basis of Consolidation ➤ The consolidated financial statements include the accounts of the wholly-owned subsidiary, Stirling Connectors Inc. ("Stirling").

Inventory ➤ Inventory is valued at the lower of cost (first-in, first-out) and net realizable value. Cost includes appropriate elements of duty, freight, material, labour and overhead.

Capital Assets ➤ Capital assets are recorded at cost. Amortization is being provided for over the estimated useful life of the asset on the declining balance basis at the following annual rates:

Building	5%
Plant and equipment	20–50%

Foreign Currency Translation ➤ The company does not have non-monetary assets and liabilities denominated in foreign currency.

Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rate, while foreign currency revenues and expenses are translated at the exchange rate in effect on the date of the transaction. Resulting exchange losses of $43,155 (1995 – gains of $22,037; 1994 – losses of $319,715) are included in income.

Goodwill ➤ Goodwill is stated at cost less accumulated amortization on a straight-line basis over the estimated useful life, being 15 years. The management determines the potential permanent impairment in value of goodwill and its estimated useful life annually, based on estimation of fair value.

Deferred Income Taxes ➤ Deferred income taxes are provided for differences in the timing of reporting income and expenses for financial statement reporting and income tax purposes.

2. Acquisition of ANTEC Canadian Distribution Business

On August 29, 1996, Cabletel acquired the Canadian distribution business of ANTEC Corporation ("ANTEC"). The purchase has been accounted for by the purchase method and as such results of operations for this business have been included for the period beginning August 30, 1996. The acquisition was achieved by a combination of cash and shares as noted below.

Net assets acquired	
Total current assets	$ 11,677,384
Total liabilities	(7,083,627)
Other	182,472
Net assets acquired	4,776,229
Goodwill (15 year amortization)	8,450,389
Total	$ 13,226,618
Consideration given	
Cash – ANTEC	$ 4,593,359
Term notes	1,238,000
Common shares to ANTEC	6,108,488
Common shares to ARC	1,286,771
Total	$ 13,226,618

The common shares issued to Cabletel's majority shareholder, ARC International Corporation ("ARC") as part of the transaction were part of a series of transactions where Cabletel issued shares to ARC in exchange for cash and this cash was then paid to ANTEC where it was then invested in 500,000 ARC shares.

As part of the transaction, ARC converted its term debt into common shares of Cabletel (Note 7).

Assuming the acquisition had taken place at the beginning of 1995 and 1996, the unaudited pro forma condensed consolidated results of operations for the periods noted would have been as follows.

	1996	1995
Revenue	**$ 80,954,028**	$ 70,448,205
Net income	**704,133**	436,681
E.P.S.	**.11**	.08

The unaudited pro forma financial information presented is not necessarily indicative of the results of operations that would have occurred had the acquisition been effective at the beginning of the respective periods.

3. Inventory

	1996	1995
New material	**$ 370,940**	$ 184,039
Work in process	**390,941**	453,521
Finished goods	**12,746,827**	5,561,238
	$ 13,508,708	$ 6,198,798

4. Capital Assets

1996	Cost	Accumulated Amortization	Net
Land	**$ 248,700**	**$ –**	**$ 248,700**
Building	**914,478**	**355,218**	**559,260**
Plant and equipment	**2,730,054**	**1,632,190**	**1,097,864**
	$ 3,893,232	**$ 1,987,408**	**$ 1,905,824**

1995	Cost	Accumulated Amortization	Net
Land	$ 248,700	$ –	$ 248,700
Building	890,319	317,362	572,957
Plant and equipment	2,170,812	1,328,655	842,157
	$ 3,309,831	$ 1,646,017	$ 1,663,814

5. Bank Indebtedness

The bank indebtedness consists of overdraft accounts, bears interest at prime plus .6% to 1% per annum (December 31, 1996 – 7.95% to 8.50% per annum) and is secured by general assignments of book debts and inventory, demand debentures in the amount of $12,000,000 in the aggregate constituting a first fixed and floating charge on certain assets of the company and assignments of insurance. The weighted average interest rate was 6.49% (1995 – 8.96%; 1994 – 7.74%).

6. Long-Term Debt

Long-term debt consisted of a mortgage payable bearing interest at 11.25% per annum, secured by a first charge over land and building, payable monthly at $5,879 principal and interest due April 1, 1996. The debt was paid during the year.

7. Due to Related Parties

During the year, the company repaid the amount due to ARC via cash of $62,500 and issue of 165,153 ($1,272,667) common shares.

As part of the ANTEC acquisition (Note 2), the company issued two non-interest bearing notes as follows.

Due August 31, 1997	$	685,000
Due August 31, 1998		685,000
		1,370,000
Less: Imputed interest		(98,833)
	$	1,271,167

8. Capital Stock

	Number		Amount
Balance, January 1, 1994			
Subdivision of shares (3,000,000 for 1)	3,000,000	$	1
Issued during 1994 pursuant to:			
Public offering	1,500,000		5,407,718
Agency agreement options	75,000		300,000
Balance, December 31, 1994 and 1995	4,575,000		5,707,719
Issued during 1996 pursuant to:			
Exercise of options	70,000		301,600
Acquisition (Note 2)	1,684,959		7,395,259
Exchange of long-term debt (Note 7)	165,153		1,272,667
	1,920,112		8,969,526
Balance, December 31, 1996	6,495,112	$	14,677,245

Common shares have been reserved for stock options on the following basis.

	Shares	Option Price $
Outstanding and exercisable at December 31, 1994 and 1995	650,000	4.00–5.00
Granted - 1996	260,000	4.00–8.55
Exercised	(70,000)	4.00–5.44
Cancelled	(70,000)	4.00
	770,000	4.00–8.55

9. Related Party Transactions

The company is party to certain agreements and transactions in the normal course of business with its parent company. Significant related party transactions not disclosed elsewhere include:

		1996		1995		1994
Management fees to parent company	**$**	**351,000**	$	332,550	$	364,757
Interest incurred with respect to the advances referred to in Note 7		**106,395**		164,308		125,436

10. Income Taxes

The consolidated provision (benefit) for income taxes consists of:

	1996	1995	1994
Current – Federal	**$ 793,000**	$ 337,000	$ 681,000
– Provincial	**427,500**	183,000	370,000
Deferred – Federal	**(112,000)**	(25,000)	60,000
– Provincial	**(61,000)**	(10,000)	30,000
	$1,047,500	$ 485,000	$ 1,141,000
Statutory rate	**44.6%**	44.5%	44.3%
Income taxes at statutory rate	**$ 908,165**	$ 490,435	$ 1,163,199
Recovery of wholly-owned subsidiary's losses carry-forward	–	(93,000)	(52,882)
Effect of lower tax rates of manufacturing losses	**91,000**	–	–
Items non-deductible for income tax purposes and other	**48,335**	87,565	30,683
Income tax expense	**$1,047,500**	$ 485,000	$ 1,141,000

11. Earnings Per Share

a. Basic Earnings per Share ➤ The weighted average number of shares outstanding amounted to 5,249,204 for the year ended December 31, 1996 and 4,575,000 and 3,981,250 for the years ended December 31, 1995 and 1994, respectively.

b. Fully Diluted Earnings per Share ➤ For purposes of calculating the fully diluted earnings per share, the earnings applicable to common shares were increased by the savings on the interest expense on the debt which would have been reduced by the cash received on the exercise of the options. The exercise of options had no dilutive effect on earnings per share for the year ended December 31, 1996.

12. Commitments

a. Commitments for leased premises and certain contracts have been made as follows:

1997	$ 507,266
1998	366,071
1999	306,370
2000	306,370
2001	180,792

b. The company has an employment contract with certain key officers and a management contract with the parent company.

13. Financial Instruments

a. The company and its subsidiary are engaged primarily in the sale of a highly diversified line of telecommunication products principally in Canada. The company performs ongoing credit evaluation of its customers' financial condition and, generally, requires no collateral from its customers.

b. The carrying amounts reflected in the consolidated balance sheets for accounts receivable, accounts payable and accrued liabilities approximate the respective fair values due to the short maturities of those instruments.

The fair values for long-term debt and due to parent company do not differ materially from the carrying values recorded in the consolidated balance sheets due to the terms and interest rates reflecting existing market conditions and in the case of the amounts due to ANTEC, the imputing of interest.

14. United States Accounting Principles

a. The U.S. GAAP requires a statement of cash flows as opposed to a statement of changes in financial position; in addition, under Canadian GAAP, bank indebtedness forms a part of cash equivalents for purposes of the statements of changes in financial position. Under U.S. GAAP, changes in bank indebtedness represent financing activities. Changes in bank indebtedness amounted to $4,958,116 (1995 – $52,211; 1994 – $1,264,169).

Non-cash activities in 1996 included issue of notes and shares to ANTEC, $1,238,000 and $6,108,488, respectively, in exchange for acquisition of assets.

	1996	1995	1994
Cash provided by (used in) operating activities	**$ 327,376**	$ 1,254,006	$ (723,749)
Cash provided by (used in) financing activities	**5,944,737**	(575,969)	907,758
Cash used in investing activities	**(6,331,002)**	(617,119)	(179,806)
Change in cash	**(58,889)**	60,918	4,203
Cash, beginning of year	**68,883**	7,965	3,762
Cash, end of year – U.S. GAAP	**$ 9,994**	$ 68,883	$ 7,965
Supplementary Information			
Income taxes paid (recovered)	**$ 580,459**	$ 1,208,000	$ (643,00)
Interest paid	**331,598**	533,550	368,198

b. Financial Accounting Standards No. 109, "Accounting for Income Taxes" requires the use of an asset and liability approach for financial accounting and reporting for income taxes. There would be no cumulative effect from the adoption of the statement, nor would the results of operations be different than those reported under Canadian GAAP. Under FAS 109, the company would have reported the following deferred tax assets and liabilities at December 31, 1996 and 1993:

	1996	1993
Deferred tax liabilities	**$ –**	$ 39,000
Gross deferred tax assets	**478,000**	434,000
Valuation allowance	**–**	–
Deferred tax assets	**478,000**	434,000
Net deferred tax assets	**478,000**	395,000

c. Earnings per share calculations under U.S. GAAP are based on the weighted average number of common shares and dilutive common equivalents outstanding. For each of the years ended December 31, 1996, 1995 and 1994, there were no dilutive common equivalents outstanding.

d. Under the U.S. GAAP, the company is required to disclose sales to customers in excess of 10%. Sales to customers which exceed 10% of total sales are listed below.

	1996	1995	1994
Shaw Communications Inc.	**21.5%**	18.0%	14.9%
Rogers Cablesystems Limited	**17.9%**	19.3%	14.2%
Videotron	**11.1%**	6.8%	5.2%

e. Accounting for stock options and pro forma disclosures required under SFAS 123 ➤ Issued by the Financial Accounting Standards Board in October, 1995, SFAS 123 establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. This statement defines a fair value based method of accounting for employee stock option or similar equity instruments, and encourages all entities to adopt that method of accounting for all their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. Entities electing to remain with the accounting in Opinion 25 must make pro forma disclosures of net income and, if presented, earnings per share, as if the fair value based methods of accounting defined by SFAS 123 had been applied. SFAS 123 is applicable to fiscal years beginning after December 15, 1995.

The Company accounts for its stock options under Canadian GAAP, which, in the Company's circumstances, are not materially different from the amounts that would be determined under the provisions of the Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its stock option plan. No compensation expense has been charged to the consolidated statement of operations for the plan for the year ended December 31, 1996. Had compensation expense for the Company's stock-based compensation plan been determined based on the fair value at the grant dates for awards under the Plan consistent with the method under the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 "Accounting for Stock-based Compensation" ("SFAS 123"), the Company's net income and earnings per share would have been reported as the pro forma amounts indicated in the table below. The fair value of each option grant was estimated on the date of the grant using the fair value recognition method, with the following assumptions: risk free interest rate of 6%, dividend yield of 0%, theoretical volatility assumption of .40, no vesting provisions and the expected lives of options of three years.

	1996		1995	
	As Reported	**Pro forma**	As Reported	Pro forma
Net income – U.S. GAAP	**$ 988,743**	**$ 693,083**	n/a	n/a
Primary and diluted earnings per share	**$ 0.18**	**$ 0.13**	n/a	n/a
Weighted-average fair value of options granted during the period	**$ n/a**	**$ 1.14**	n/a	n/a

OFFICERS

Arnold S. Tenney
Chairman

Sheldon M. Rittenberg
President,
Chief Executive Officer

Brian S. Kelsey
Vice-President, Finance
Assistant Secretary

Peter M. Nixon
Vice-President
Sales and Marketing

Jeffrey D. Chelin
Secretary-Treasurer

DIRECTORS

Jeffrey D. Chelin[1]

Ian S. Lurie[1,2]
Vice-President
Standard Radio Inc.
(broadcasting and
communications)

M. David Prussky[1,2]
Partner, Patica Corporation
Investment Banking

Sheldon M. Rittenberg

Arnold S. Tenney[2]

James L. Faust
Executive Vice-President,
International ANTEC
Corporation

Lawrence A. Margolis
Executive Vice-President,
Chief Financial Officer
ANTEC Corporation

Marshall S. Geller
Chairman, Chief Executive
Officer and Founding Partner
of Geller & Friend Capital
Partners, Inc.

1. Member of the audit committee
2. Member of the compensation committee

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SHARES TRADED

Toronto Stock Exchange
Symbol: TTV

American Stock Exchange
Symbol: TTV

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Hongkong Bank of Canada

COUNSEL

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Toronto, Ontario, Canada

Gordon, Altman, Butowsky,
Weitzen, Shalov & Wein
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ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 2:00 pm on June 17, 1997 in the Library Room of the Royal York Hotel.

ADDITIONAL INFORMATION

For copies of annual and quarterly reports and the form 10K annual report filed with the U.S. Securities and Exchange Commission, write to:
The Secretary
Cabletel Communications Corp.
120 Gibson Drive
Markham, Ontario
Canada L3R 2Z3

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